Natural Resources Canada | Ressources naturelles Canada

Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 12

June 29, 2012

Canada

Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: prb.drp@nrcan-rncan.gc.ca
Web site: http://nrcan.gc.ca/eneene/focinf-eng.php

© Her Majesty the Queen in Right of Canada 2012

ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

Fuel Focus

Volume 7, Issue 12
June 29, 2012

National Overview

Canadian Retail Gasoline Prices Decreased 3 Cents per Litre from Last Week

Canadian retail pump prices, for the week ending June 26, 2012, decreased by 3 cents per litre to reach $1.24 per litre—a 20-week low. This downward movement reflects the recent decreases in wholesale gasoline prices which in turn were pushed down by lower crude oil prices. Compared to last year at this time, gasoline prices are nearly 1 cent per litre lower.

Diesel fuel and furnace oil prices decreased by less than 1 cent per litre to $1.18 and $1.12 per litre, respectively. Diesel prices are almost 5 cents per litre lower than a year ago.

While retail pump prices have declined to their lowest level since February 2012, gasoline prices have been slower to decline than crude oil prices lately. However, the cost of the crude oil is not the only factor which determines the price at the pump. Low U.S. gasoline inventories and the expectation of increased consumption, as people drive longer distances during the summer season, helped moderate the decline.

Recent Developments

- **Domestic Gasoline Sales:** Motor gasoline sales were 15 billion litres in the first four months of 2012, a 6% increased compared to the same period in 2011. Diesel fuel sales rose nearly 3% to 9.5 billion litres, while light fuel oil (furnace oil) decreased 17% to 0.2 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- **Crude Oil Storage Capacity at Cushing Rises:** As of March 31, 2012 working crude oil storage capacity at the Cushing, Oklahoma storage and trading hub was 61.9 million barrels, an increase of 6.9 million barrels (13%) from September 30, 2011 and 13.9 million barrels (29%) higher than levels a year earlier. Both storage capacity and the level of inventories held at Cushing are closely watched market indicators, as Cushing is the market hub for West Texas Intermediate (WTI) crude oil, and the contract delivery point for crude oil futures contracts traded on the New York Mercantile Exchange. High inventory levels at Cushing have been a symptom of pipeline transportation constraints, that have resulted in WTI trading at a discount to comparable grades of global crude oil (such as Brent) since early 2011. (Source: U.S. Energy Information Administration, http://www.eia.gov/todayinenergy/detail.cfm?id=6710)
- **Reduced Oil Price Forecast:** JPMorgan slashed its oil price forecasts for 2012 and 2013, citing softening demand due to weak global economic growth and increased OPEC supply. (Source: Daily Oil Bulletin, June 25, 2012)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

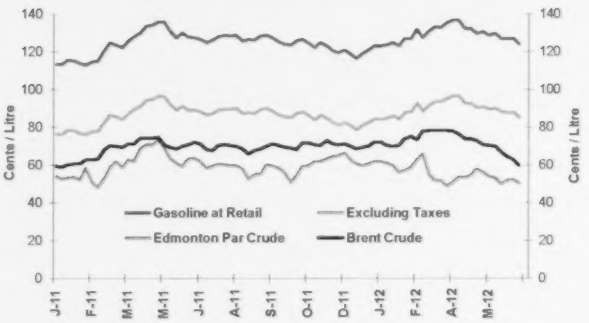
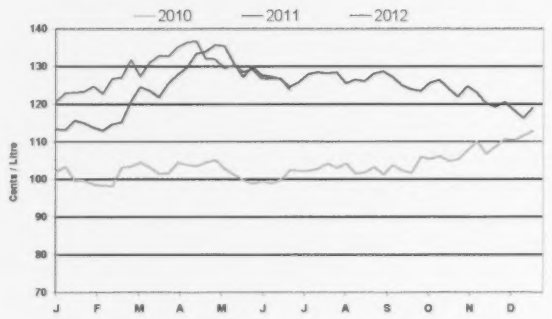


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-06-26	Previous Week	Last Year
Gasoline	123.7	-3.1	-0.8
Diesel	118.0	-0.3	-4.8
Furnace Oil	111.9	-0.8	+0.5

Source: NRCan

In this Issue

	page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5

Retail Gasoline Overview

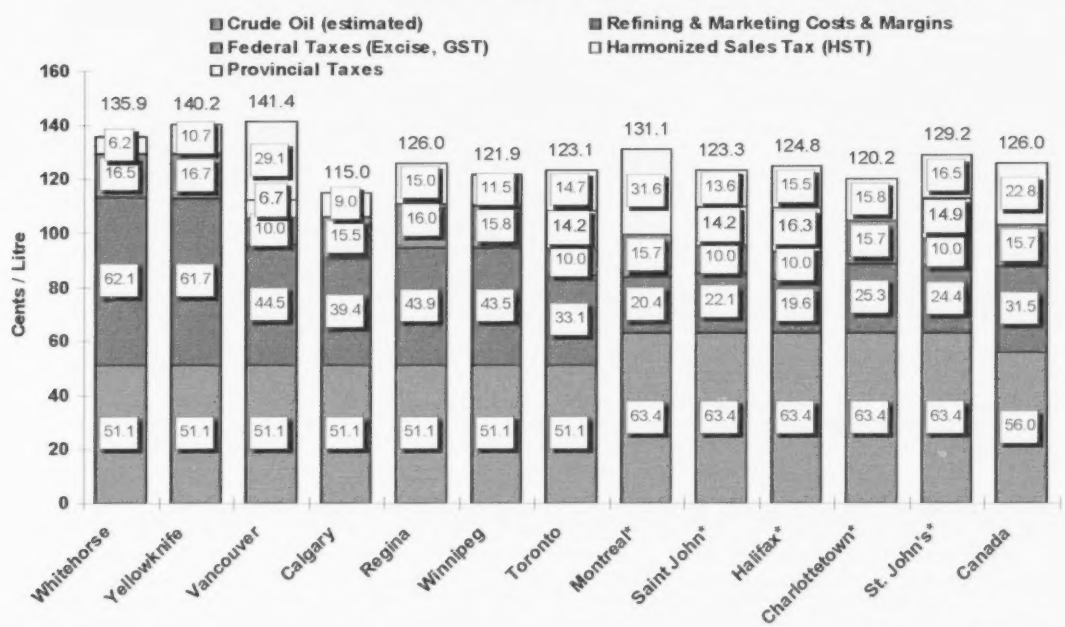
The average Canadian pump price in selected cities for the **four-week average** ending June 26, 2012, was $1.26 per litre—a decrease of 2 cents per litre from the last report on June 15, 2012. This represents a 1-cent-per-litre decrease compared to the same period in 2011.

Overall, compared to two weeks ago, the **four-week average** crude oil prices declined by nearly 3 cents per litre to 56 cents per litre.

Retail gasoline prices in Eastern centres decreased, on average, 3 cents per litre, and ranged from $1.20 per litre to $1.31 per litre. Prices in some Western centres dropped marginally and ranged from a high of $1.41 to a low of $1.15 per litre.

At the national level, refining and marketing costs and margins increased by 1 cent per litre to nearly 32 cents per litre from the previous report two weeks ago. This is 8 cents per litre higher than the same period last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 5 to 26, 2012)



Source: NRCan

** Regulated Markets*

Wholesale Gasoline Market and its Impact on Retail Gasoline

Wholesale gasoline is a commodity that is traded on the open market. As such, its price can change by the minute, which may influence the cost structure for a retailer. While the wholesale costs are a significant factor in retailer prices, the retail pricing decision also is heavily influenced by market conditions and local competition. Ultimately, movements in wholesale gasoline prices influence the cost structure of a retail facility, but competition for customers will dictate the store's profitability.

Retailers may react to wholesale market conditions using various strategies. For example, a retailer may seek to maintain consistent margins, matching its retail price with variations in the wholesale cost based upon a certain formula. However, this strategy may result in a retailer pricing gasoline contrary to the prevailing competitive market conditions. Conversely, a retailer may seek to remain competitive in the marketplace, in spite of wholesale market conditions. This may enable the retailer to maintain customer counts and overall revenue by setting competitive prices, but would lead to reduced or even negative margins. This type of retailer is focused on the complete market cycle, trusting that market forces will result in an average positive margin on gasoline sales over time. With either strategy, gross margins are likely similar over the course of a year.

Source: National Association of Convenience Stores

Wholesale Gasoline Prices

For the **week of June 21, 2012,** and compared to the previous week, wholesale gasoline prices decreased in most centres.

On average, compared to the previous week, prices in both Canadian and U.S. markets have registered decreases ranging from more than 8 cents a litre to increases of less than 1 cent per litre and ended the period in the 67- to 84- cent-per-litre range.

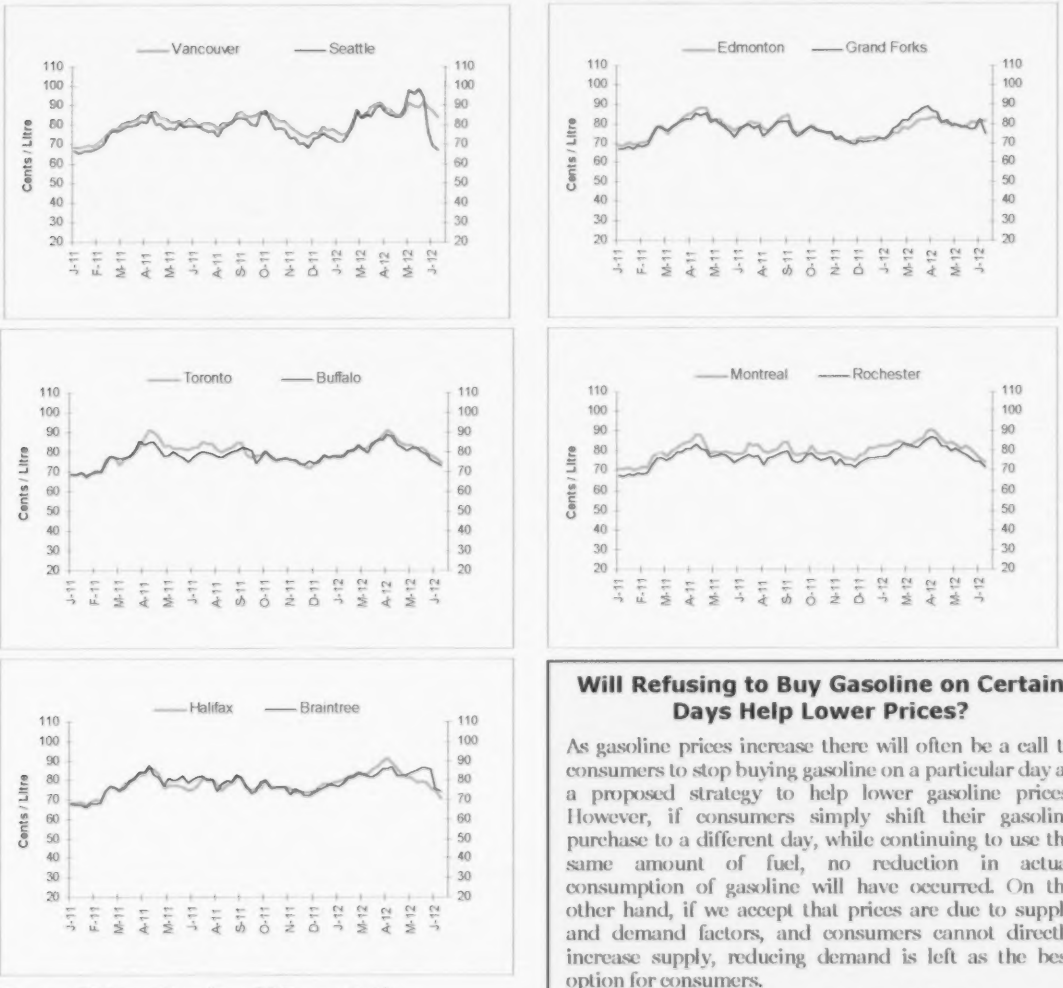
Wholesale gasoline prices in Eastern markets in both Canada and the United States registered decreases of 2 to 4 cents per litre, compared to the previous week, and ended the period in the 71-to 75-cent-per-litre range.

Wholesale gasoline price in Western centres ranged from a decrease of less than 8 cents per litre to an increase of nearly 1 cent per litre and ended the period between 67 and 84 cents per litre.

In the last four weeks, wholesale prices in Canadian and American selected centres ranged from a decrease of 31 cents per litre to an increase of 3 cents per litre. Wholesale prices dropped the most in Seattle as a result of a local refinery returning to normal operation and the decline in crude oil prices.

Overall, compared to the same period last year, prices have registered decreases ranging from 12 cents a litre to increases of more than 5 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 21, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Will Refusing to Buy Gasoline on Certain Days Help Lower Prices?

As gasoline prices increase there will often be a call to consumers to stop buying gasoline on a particular day as a proposed strategy to help lower gasoline prices. However, if consumers simply shift their gasoline purchase to a different day, while continuing to use the same amount of fuel, no reduction in actual consumption of gasoline will have occurred. On the other hand, if we accept that prices are due to supply and demand factors, and consumers cannot directly increase supply, reducing demand is left as the best option for consumers.

(Source: US Energy Information Administration)

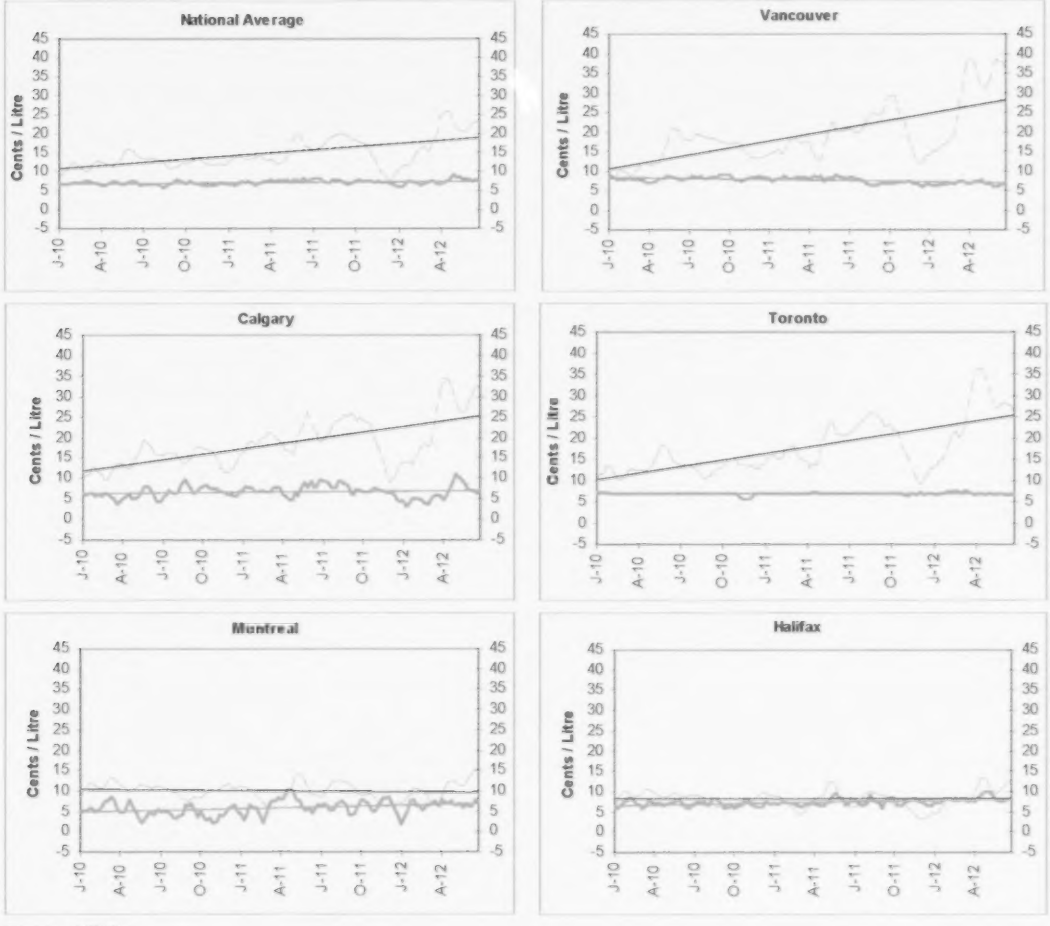
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

These margins are the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The recent increase in refining margins indicates that wholesale prices have not kept pace with the decreases in crude oil prices. At the national level, the refining margin was around 24 cents per litre—about 1 cent higher than two weeks ago.

Overall, marketing margins remain much less volatile than refining margins and fluctuate over a much narrower range. While Halifax registered the highest marketing margin at 8 cents per litre, Toronto showed the lowest margin at about 6.6 cents per litre for the period ending June 26, 2012. Nationally, marketing margins hovered around 7.6 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 26, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices on the Decline – WTI and Edmonton Par Price Gap Closes

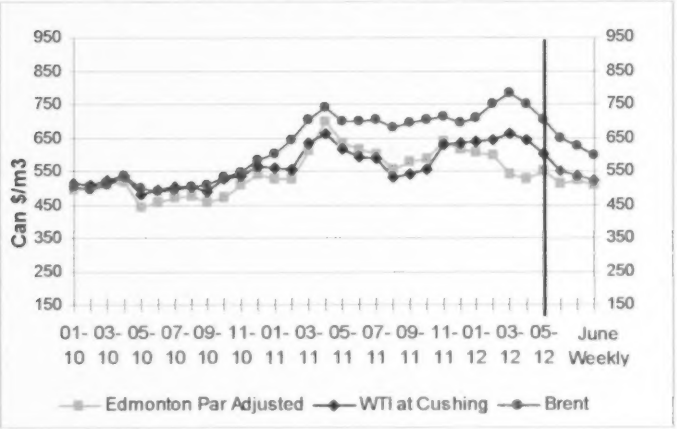
For the week ending June 22, 2012, prices for the three marker crudes averaged between $507/m³ and $595/m³, (US$79 to US$92 per barrel). This is a decrease of $15 to $31/m³ (US$2 and US$4 per barrel) compared to the previous week. Compared to last year at the same time prices are lower ranging from $47/m³ to $84/m³, (US$11 to US$18 per barrel).

Global crude oil benchmark prices declined as many industrialized nations experienced an economic slowdown. Demand for oil in the U.S., the world's largest oil consuming nation, has declined on lackluster economic performance, high unemployment levels and weak gross domestic product growth of less than 2%. Meanwhile, U.S. crude oil inventories are above their 5-year average due to increased crude oil output from the U.S., pipeline bottlenecks and the influx of Canadian crude oil to the U.S. market.

World crude oil prices are moderating as uneventful conditions persist. In recent weeks there have been very few disturbances in oil producing regions and no serious weather related disruptions. In addition, the equity market's reaction to the possibility of Greece exiting the euro currency has been fairly muted.

More than sufficient oil supply in the U.S. and the ongoing economic difficulties in the euro zone countries have pushed oil prices downward. Brent prices continue to decline in reaction to mixed European and Asian economic signals, but Brent has remained at a premium to WTI.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-06-22		Change From:			
			Previous Week		Last Year	
	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl	$Can/ m³	$US/ bbl
Edmonton Par	506.77	78.76	-15.33	-2.12	-84.30	-17.36
WTI	522.84	81.26	-14.96	-2.06	-46.74	-11.37
Brent	595.04	92.48	-30.72	-4.46	-83.84	-17.93

Source: NRCan

Rise in Global Crude Oil Demand in 2012

According to the International Energy Agency's (IEA) latest Oil Market Report, 2012 will be a 'better-supplied' rather than an 'over-supplied' market. The report notes the sharp recent falls in prices, as economic news flow has worsened. The report's base case retains 2012 demand growth unchanged at 0.8 million barrels per day (mb/d), but highlights a low-GDP sensitivity that would result in growth of nearer 0.35 mb/d.

OECD industry stocks have recovered closer to five-year norms and 2012 has so far also seen substantial builds in stocks in emerging markets. European refining operations are constrained by weak margins, but global crude demand should rise sharply in coming months, as refiners return from maintenance and new capacity is added. Summer power generation demand and potential continued non-OECD stockpiling could boost crude demand further. Non-OPEC supply is expected to recover slowly from recent unplanned outages.

Source: IEA, http://iea.org/newsroomandevents/news/2012/june/name,27691,en.html